

BANK INDONESIA REGULATION  
NUMBER: 7/2/PBI/2005  
CONCERNING  
ASSET QUALITY RATING FOR COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas the business survival of a bank depends on, among others, the capacity and effectiveness of the bank in managing credit risk and minimizing potential for loss;
  - b. whereas to manage credit risk and minimize potential for loss, banks are required to maintain asset quality and are required to set aside provision for asset losses;
  - c. whereas it is necessary to institute the requirement to set aside provision for asset losses for earning assets and non-earning assets;
  - d. whereas as one recourse for minimizing potential for loss from problem debtors, banks may conduct debt restructuring in respect of debtors that retain business prospects and repayment capability;
  - e. whereas the legal provisions concerning asset quality, provision for asset losses, and debt restructuring are interrelated and therefore it is deemed necessary to combine these provisions into a single regulation;

f. now ...

- f. now therefore it is deemed necessary to enact renewed provisions concerning asset quality rating for commercial banks in a Bank Indonesia Regulation;

- In view of:
- 1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472), as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);
  - 2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING ASSET QUALITY RATING FOR COMMERCIAL BANKS.

CHAPTER I  
GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. “Bank” is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998, including a branch office of a foreign bank, conducting conventional business.
2. “Assets” are earning assets and non-earning assets.
3. “Earning Assets” are provision of funds by a Bank to earn revenues and take the form of credit, securities, interbank placements, acceptances, claims on securities under reverse repurchase agreement, derivative claims, equity participation, off balance sheet items, and any other equivalent provision of funds.
4. “Non-earning Assets” are assets of the Bank other than Earning Assets with potential for loss, including but not limited to foreclosed collateral, abandoned property, interoffice accounts, and suspense accounts.
5. “Credit” is provision of funds or equivalent claims based on a loan agreement or contract between the Bank and another party requiring the borrowing party to repay the debt at a specified term with interest, including:
  - a. overdraft, namely negative balance in the demand deposit of a customer that cannot be repaid in full at end-of-day;
  - b. takeover of claims within the framework of factoring;
  - c. negotiation or purchase of credit from other parties.

6. “Securities” are debt instruments, notes, bonds, credit securities, or any derivative thereof, or other interest, or liability from an issuer in any form customarily traded on the capital market and money market.
7. “Placement” is placement of Bank funds at another bank in the form of demand deposit, interbank call money, time deposit, certificate of deposit, credit, and other similar fund placement.
8. “Acceptance” is a claim arising from acceptance of a bill of exchange.
9. “Derivative Claim” is a claim arising from potential gain on an agreement/contract for a derivative transaction (positive difference between contract value and fair market value of the derivative transaction at the report date), including potential gain from mark to market on an ongoing spot transaction.
10. “Equity Participation” is placement of funds by the Bank in the form of shares in another bank or financial sector company as stipulated in the applicable laws and regulations, such as leasing company, venture capital company, securities company, insurance company, and clearing and settlement institution, including placement in convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares in a bank and/or other financial sector company.
11. “Temporary Equity Participation” is Equity Participation by a Bank in a debtor company to resolve credit failure (debt-to-equity swap), including placement in convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares in the debtor company.
12. “Off Balance Sheet Items” are commitment liabilities and contingent liabilities, including but not limited to issued guarantees, letters of credit, standby letters of credit, undisbursed loans, and/or other commitment liabilities and contingent liabilities.

13. “Bank Indonesia Certificates”, hereinafter referred to as SBIs, are securities denominated in the Rupiah currency and issued by Bank Indonesia in recognition of short-term debt.
14. “Government Securities”, hereinafter referred to as ~~GS~~ SUN, are securities in the form of debt instruments denominated in the Rupiah currency and foreign currency and issued by and guaranteed in respect of repayment of principal and interest by the State of the Republic of Indonesia in keeping with their tenor.
15. “Foreclosed Collateral”, hereinafter referred to as ~~FC~~ AYDA, is assets acquired by the Bank whether through auction or other than by auction by virtue of transfer by the collateral owner either voluntarily or on the basis of authorization from the collateral owner ~~e~~ to conduct sale other than auction in the event of debtor default.
16. “Abandoned Property” is fixed assets in the form of property held by the Bank but not used for the customary business of the Bank.
17. “Interoffice Accounts” are claims arising from interoffice transactions not settled within a specific time frame.
18. “Suspense Account” is an account for which the purpose for recording has not been identified or is not supported by adequate recording documents so that it cannot be reclassified into the proper account.
19. “Provision for Asset Losses” is reserves that must be formed in a specified percentage on the basis of Asset quality.
20. “Related Party” is any related party as stipulated in the Bank Indonesia provisions concerning the Legal Lending Limit.
21. “Debtor Group” is a debtor group as stipulated in the Bank Indonesia provisions concerning the Legal Lending Limit.

22. “Minimum Capital Requirement” is the Minimum Capital Requirement as stipulated in the Bank Indonesia provisions concerning the Minimum Capital Requirement for Commercial Banks.
23. “Board of Directors”:
- a. for a Bank incorporated as a Limited Liability Company, is the board of directors as referred to in Article 1 paragraph 4 of Act Number 1 of 1995 concerning Limited Liability Companies;
  - b. for a Bank incorporated as a Regional Government Enterprise, is the board of directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
  - c. for a Bank incorporated as a Cooperative, is the management board as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives;
- including branch office management of a foreign bank.
24. “Board of Commissioners”:
- a. for a Bank incorporated as a Limited Liability Company, is the board of commissioners as referred to in Article 1 paragraph 5 of Act Number 1 of 1995 concerning Limited Liability Companies;
  - b. for a Bank incorporated as a Regional Government Enterprise, is the board of commissioners as referred to in Article 19 of Act Number 5 of 1962 concerning Regional Government Enterprises;
  - c. for a Bank incorporated as a Cooperative, is the supervisory board as referred to in Article 38 of Act Number 25 of 1992 concerning Cooperatives,
- including any officer appointed by the head office of a foreign bank to perform the supervisory function.

25. “Debt Restructuring” is the remedial action taken by a Bank in its lending to a debtor experiencing difficulty in meeting obligations, implemented among others by:
- a. lowering of the Credit interest rate;
  - b. extension of term of Credit;
  - c. reduction in arrears on Credit interest;
  - d. reduction in arrears on Credit principal;
  - e. provision of additional Credit facility; and/or
  - f. debt-to-equity swap.

CHAPTER II  
ASSET QUALITY  
Article 2

- (1) Provision of funds by a Bank shall operate on the basis of prudential principles.
- (2) In the operation of prudential principles as referred to in paragraph (1), the Board of Directors is required to assess, monitor, and take the necessary measures to ensure that Asset quality remains in good condition at all times.

Article 3

Quality shall be assessed for Earning Assets and Non-Earning Assets.

#### Article 4

- (1) Banks shall conduct the assessment and classification of Asset quality in accordance with this Bank Indonesia Regulation.
- (2) In the event of difference in assessment of Asset quality by a Bank and Bank Indonesia, the governing Asset quality shall be the asset quality designated by Bank Indonesia.
- (3) Banks are required to adjust Asset quality in line with the quality designated by Bank Indonesia as referred to in paragraph (2) in the reports submitted to Bank Indonesia and/or in published reports as stipulated in the applicable Bank Indonesia provisions no later than the following reporting period after notification from Bank Indonesia.

### CHAPTER III

#### EARNING ASSETS

##### Part One

##### General Provisions

#### Article 5

- (1) Banks shall apply uniform quality classification to multiple accounts of Earning Assets used to finance 1 (one) debtor.
- (2) Uniform quality classification as referred to in paragraph (1) shall also apply to Earning Assets extended by more than 1 (one) Bank.
- (3) In the event of differing classifications of Earning Asset quality for 1 (one) debtor as referred to in paragraph (1) and paragraph (2), each Earning Asset shall be classified according to the lowest Earning Asset quality.



#### Article 6

- (1) Banks are required to apply uniform quality classification to Earning Assets used to finance the same project.
- (2) Uniform quality classification as referred to in paragraph (1) shall also apply to Earning Assets extended by more than 1 (one) Bank.
- (3) In the event of designation of different Earning Asset quality for the same project as referred to in paragraph (1) and paragraph (2), each Earning Asset shall be classified according to the lowest Earning Asset quality.

#### Article 7

Banks shall adjust the assessment of Earning Asset quality as referred to in Article 5 paragraph (2) and Article 6 paragraph (2) at least every 3 (three) months, namely for the positions at the end of March, June, September, and December.

#### Article 8

Classification of quality as referred to in Article 5 paragraph (2) and Article 6 paragraph (2) shall not apply to Earning Assets extended by any Bank up to the amount of Rp 500,000,000 (five hundred million rupiahs) to a single debtor or project.

#### Article 9

- (1) Banks are required to have internal regulations governing the criteria and conditions for debtors required to submit financial statements audited by

Public Accountants to the Bank, including rules on the deadline for submission of these financial statements.

- (2) The requirement for the debtor to submit financial statements audited by a Public Accountant as referred to in paragraph (1) shall be stipulated in the agreement between the Bank and the debtor.
- (3) The internal regulations referred to in paragraph (1) shall take into account the applicable laws and regulations.
- (4) Earning Asset Quality for a debtor failing to submit a financial statement as referred to in paragraph (1) shall be downgraded one level and classified no higher than Sub-standard.

## Part Two

### Credit

#### Article 10

Credit quality shall be classified on the basis of the following rating factors:

- a. business prospects;
- b. performance of the debtor; and
- c. repayment capability.

#### Article 11

- (1) Scope of assessment of business prospects as referred to in Article 10 letter a includes assessment of the following components:
  - a. potential for business growth;
  - b. market conditions and position of debtor in relation to the competition;
  - c. management quality and labor problems;
  - d. support from the group or affiliates; and

- e. measures taken by the debtor to conserve the environment.
- (2) Scope of assessment of debtor performance as referred to in Article 10 letter b includes assessment of the following components:
  - a. earnings;
  - b. capital structure;
  - c. cash flow; and
  - d. sensitivity to market risks.
- (3) Scope of assessment of repayment capability as referred to in Article 10 letter c includes assessment of the following components:
  - a. promptness in repayment of principal and interest;
  - b. availability and accuracy of financial information on the debtor;
  - c. completeness of Credit documentation;
  - d. compliance with the Credit agreement;
  - e. appropriateness of use of funds; and
  - f. viability of source for payment of obligations.

## Article 12

- (1) Credit quality shall be classified by analysis of the assessment factors referred to in Article 10, taking into account the components referred to in Article 11.
- (2) Classification of Credit quality as referred to in paragraph (1) shall take into account:
  - a. the significance and materiality of each assessment factor and component; and
  - b. the relevance of the assessment factors and components to the debtor concerned.

- (3) Based on the classification referred to in paragraph (1) and paragraph (2), Credit quality shall be classified:
- a. Current;
  - b. Special Mention;
  - c. Sub-standard;
  - d. Doubtful; or
  - e. Loss.

### Part Three

#### Securities

#### Article 13

- (1) Banks are required to have a written policy and procedures for Earning Assets in the form of Securities.
- (2) The policy referred to in paragraph (1) shall be approved by the Board of Commissioners.
- (3) The procedures referred to in paragraph (1) shall be approved at least by the Board of Directors.
- (4) The Board of Commissioners shall actively supervise implementation of the policy referred to in paragraph (1).
- (5) The policy and procedures referred to in paragraph (1) shall constitute an integral part of the risk management policy of the Bank as stipulated in the applicable Bank Indonesia provisions.

#### Article 14

- (1) Quality of Securities recognized at market value shall be classified Current insofar as they meet the following requirements:

a. actively ...

- a. actively traded on a stock exchange in Indonesia;
  - b. transparent information is available on market value;
  - c. coupons or similar obligations are paid promptly in the proper amount according to contract; and
  - d. have not reached maturity.
- (2) Quality of Securities not meeting the requirements referred to in paragraph (1) letter a and/or letter b or of Securities recognized at cost shall be classified as follows:
- a. Current if:
    - 1) rated investment grade or higher;
    - 2) coupons or similar obligations are paid promptly in the proper amount according to contract; and
    - 3) have not reached maturity,
  - b. Sub-standard if:
    - 1) rated investment grade or higher;
    - 2) have arrears in payment of coupons or similar obligations; and
    - 3) have not reached maturity,or
    - 1) are rated no lower than 1 (one) level below investment grade;
    - 2) have no arrears in payment of coupons or similar obligations; and
    - 3) have not reached maturity.
  - c. Loss if the Securities fail to meet the criteria referred to in letter a and letter b.

#### Article 15

- (1) Rating of Securities as referred to in Article 14 paragraph (2) shall be based on the rating issued by a rating agency in the past year in accordance with the applicable Bank Indonesia provisions.
- (2) If rating issued by a rating agency during the past year as referred to in paragraph (1) is not available, the Securities shall be deemed unrated.

#### Article 16

Quality of SBIs and GS shall be classified Current.

#### Article 17

Banks are prohibited from holding Earning Assets in the form of shares and/or Securities linked to or guaranteed by underlying reference assets in the form of shares.

#### Article 18

Banks may only hold Securities linked to or guaranteed by underlying reference assets insofar as:

- a. it is possible to confirm the existence of the underlying reference assets;
- b. the Bank holds rights to the underlying reference assets or rights to the underlying reference asset value;
- c. the Bank has clear, precise, and accurate information on details of the underlying reference assets, covering the issuer and value of each underlying reference asset, including any changes thereto; and

d. the ...

- d. the Bank administers the details of the composition and issuers of the underlying reference assets and updates administration in the event of any change in composition of the assets.

#### Article 19

- (1) Quality of Securities linked to or guaranteed by underlying reference assets as referred to in Article 18 shall be classified as follows:
  - a. for Securities in which payment of their liabilities is directly tied to the underlying reference assets (pass through) and may not be repurchased by the issuer (non-redemption), quality shall be classified on the basis of:
    - 1) quality of Securities as referred to in Article 14; or
    - 2) quality of the underlying reference assets of the Securities if the Securities are unrated.
  - b. for Securities not meeting the criteria referred to in letter a, quality shall be classified on the basis of Securities quality as referred to in Article 14.
- (2) Quality of underlying reference assets for Securities as referred to in paragraph (1) letter a.2 shall be designated on the basis of the quality of each type of underlying reference asset as stipulated in this Bank Indonesia Regulation.
- (3) For Securities in the form of mutual fund certificates, quality shall be classified on the basis of:
  - a. quality of the mutual fund certificates in accordance with rating of Securities as referred to in Article 14; or

- b. quality of the underlying reference assets for the mutual fund certificates and quality of the issuer of the mutual fund certificates, if the mutual fund certificates are unrated.

#### Article 20

- (1) Quality of Securities issued or endorsed by another bank shall be classified as follows:
  - a. for Securities that are rated and/or actively traded on a stock exchange in Indonesia, quality shall be classified according to the lower of the following:
    - 1) assessment based on the provisions for Securities quality as referred to in Article 14; or
    - 2) assessment based on the provisions for quality of Placements at an issuing bank or endorsing bank as referred to in Article 23 and Article 24.
  - b. for Securities that by nature are not actively traded on a stock exchange and are unrated, quality shall be classified according to the provisions for quality of Placements at an issuing bank or endorsing bank as referred to in Article 23 and Article 24.
- (2) If Securities issued by another bank comprise Securities linked to or backed by underlying reference assets, the Bank must notwithstanding comply with the provisions referred to in Article 18.

#### Article 21

Quality of negotiation of bills of exchange not accepted by another bank shall be classified according to the provisions for Credit quality referred to in Article 10.



Part Four

Placements

Article 22

- (1) Banks are required to have a written policy and procedures for Earning Assets in the form of Placements.
- (2) The policy referred to in paragraph (1) shall be approved by the Board of Commissioners.
- (3) The procedures referred to in paragraph (1) shall be approved at least by the Board of Directors.
- (4) The Board of Commissioners shall actively supervise implementation of the policy referred to in paragraph (1).
- (5) The policy and procedures referred to in paragraph (1) shall constitute an integral part of the risk management policy of the Bank as stipulated in the applicable Bank Indonesia provisions.

Article 23

Placement quality shall be classified Current insofar as the Government blanket guarantee scheme for Placements remains in effect and the Placement transaction and the Bank receiving the Placement meet the requirements of the Government blanket guarantee scheme.

Article 24

If the Government blanket guarantee scheme does not cover a Placement or a Placement transaction does not meet the requirements of the Government blanket guarantee scheme or the bank receiving the Placement is not a member of the

Government blanket guarantee scheme as referred to in Article 23, Placement quality shall be classified as follows:

- a. Current if:
  - 1) the bank receiving the Placement has a Capital Adequacy Ratio at least as prescribed in the applicable legal provisions; and
  - 2) there are no arrears in repayment of principal and/or interest.
- b. Sub-standard if:
  - 1) the bank receiving the Placement has a Capital Adequacy Ratio at least as prescribed in the applicable legal provisions; and
  - 2) there are arrears in repayment of principal and/or interest of up to 5 (five) working days.
- c. Loss if:
  - 1) the bank receiving the Placement has a Capital Adequacy Ratio below the level prescribed in the applicable legal provisions;
  - 2) the bank receiving the Placement is designated and announced as a bank under special surveillance or subject to imposition of sanctions through freezing of all business activities;
  - 3) the bank receiving the Placement is placed in liquidation; and/or
  - 4) there are arrears in repayment of principal and/or interest exceeding 5 (five) working days.

## Part Five

Acceptances, Claims on Securities under reverse repurchase agreements, and  
Derivative Claims

### Article 25

Quality of Acceptances shall be classified on the basis of:

a. the ...

- a. the provisions concerning Placement quality as referred to in Article 23 and Article 24, if the party required to settle the claim is another bank;
- b. the provisions concerning Credit quality as referred to in Article 10, if the party required to settle the claim is a debtor.

#### Article 26

- (1) Quality of claims on Securities purchased under reverse repurchase agreement shall be classified on the basis of the quality of the party selling the Securities under reverse repurchase agreement.
- (2) Quality of the party selling Securities under reverse repurchase agreement as referred to in paragraph (1) shall be classified on the basis of:
  - a. the provisions for Placement quality as referred to in Article 23 and Article 24, if the party selling the securities is another bank; or
  - b. the provisions for Credit quality as referred to in Article 10 if the party selling the Securities is not a bank.
- (3) Quality of claims on Securities purchased under reverse repurchase agreement in which the underlying reference assets consist of SBIs and/or GS shall be classified as Current.

#### Article 27

Quality of Derivative Claims shall be classified on the basis of:

- a. the provisions for classification of Placement quality as referred to in Article 23 and Article 24, if the counterparty is another bank; or
- b. the provisions concerning Credit quality as referred to in Article 10, if the counterparty is not a bank.

Part Six  
Equity Participation  
Article 28

Quality of Equity Participation assessed by the cost method shall be classified as follows:

- a. Current if the Company in which the Bank has placed Equity Participation (investee) has earned profit and has not sustained cumulative loss on the basis of the audited financial statement for the last fiscal year;
- b. Sub-standard if the investee has sustained cumulative loss of up to 25% (twenty-five percent) of the investee capital, based on the audited financial statement for the last fiscal year;
- c. Doubtful if the investee has sustained cumulative loss greater than 25% (twenty-five percent) and up to 50% (fifty percent) of the investee capital, based on the audited financial statement for the last fiscal year;
- d. Loss if the investee has sustained cumulative loss greater than 50% (fifty percent) of the investee capital, based on the audited financial statement for the last fiscal year.

Article 29

Quality of Equity Participation assessed on the basis of the equity method shall be classified Current.

Part Seven  
Temporary Equity Participation  
Article 30

(1) Quality of Temporary Equity Participation shall be classified as follows:

a. Current ...

- a. Current if not past 1 (one) year;
  - b. Sub-standard if past 1 (one) year but not past 4 (four) years;
  - c. Doubtful if past 4 (four) years but not past 5 (five) years;
  - d. Loss if past 5 (five) years or not withdrawn, even though the debtor company has posted cumulative profit.
- (2) Bank Indonesia may downgrade the quality of Temporary Equity Participation as referred to in paragraph (1) if there is adequate evidence that:
- a. sale of the Temporary Equity Participation is likely to take place at a price below book value; and/or
  - b. likely difficulty in concluding any sale of the Temporary Equity Participation within a period of 5 (five) years.

## Part Eight

### Off Balance Sheet Items

#### Article 31

Quality of Off Balance Sheet Items shall be classified on the basis of:

- a. the provisions for classification of Placement quality as referred to in Article 23 and Article 24, if the counterparty in the Off Balance Sheet Item is another bank; or
- b. the provisions concerning classification of Credit quality as referred to in Article 10, if the counterparty in the Off Balance Sheet Item is a debtor.

#### Article 32

- (1) Classification of quality of Off Balance Sheet Items as referred to in Article 31 shall not apply to commitment and contingency liabilities subject to:

a. unconditional ...

- a. unconditional cancellation by the Bank at any time; or
  - b. automatic cancellation by the Bank if the condition of the debtor is downgraded to Sub-standard, Doubtful, or Loss.
- (2) Any Bank holding commitment and contingency liabilities as referred to in paragraph (1) shall state the applicable clause in the agreement between the Bank and the debtor.

## Part Nine

### Earning Assets Backed by Cash Collateral

#### Article 33

- (1) Quality of any portion of Earning Assets backed by cash collateral shall be classified as Current.
- (2) Cash collateral as referred to in paragraph (1) is collateral in the form of:
- a. demand deposits, time deposits, savings deposits, guarantee deposits, and/or gold;
  - b. SBIs and/or GS;
  - c. blanket guarantee of the Government of Indonesia in accordance with the applicable laws and regulations; and/or
  - d. standby letter of credit from a prime bank, issued under the applicable Uniform Customs and Practice for Documentary Credits (UCP) or International Standby Practices (ISP).
- (3) Cash collateral as referred to in paragraph (2) letter a and letter b shall meet the following requirements:
- a. the collateral is blocked and accompanied by written authorization from the holder of collateral for encashment in favor of the Bank receiving the collateral, including partial encashment for payment of arrears on principal installments or interest;

- b. term of the blocking referred to in letter a is at least equal to the term of the Earning Asset;
  - c. legally enforceable as collateral, free from all other encumbrances, free from disputes, not pledged to any other party, includes a clear pledging objective; and
  - d. for cash collateral as referred to in paragraph (2) letter a, held at the Bank providing the funds or at a prime bank.
- (4) Cash collateral as referred to in paragraph (2) letter c and letter d shall meet the following requirements:
- a. is unconditional and irrevocable;
  - b. must be encashable no later than 7 (seven) working days after submission of claim, including for partial encashment for payment of arrears in principal installments or interest;
  - c. have a tenor at least equal to the tenor of the Earning Asset; and
  - d. not counter guaranteed by the Bank providing the funds or bank other than a prime bank.
- (5) Prime bank as referred to in paragraph (2) letter d and paragraph (3) letter d shall meet the following requirements:
- a. holds investment grade rating issued by a rating agency of at least:
    - 1) BBB- based on assessment by Standard & Poors;
    - 2) Baa3 based on assessment by Moody's;
    - 3) BBB- based on assessment by Fitch; or
    - 4) Rating equivalent to number 1), number 2), and/or number 3) based on assessment by other leading rating agency designated by Bank Indonesia,based on assessment of the long-term outlook for the bank; and
  - b. holds total assets placing it among the 200 largest banks in the world, based on information listed in the banker's almanac.

#### Article 34

- (1) A Bank shall submit claim for encashment of cash collateral as referred to in Article 33 no later than 7 (seven) working days after event of default.
- (2) A debtor shall be declared in default if:
  - a. there are arrears in principal and/or interest and/or other claims of 90 (ninety) days, notwithstanding the Earning Assets have not reached maturity;
  - b. no repayment on principal and/or interest and/or other claim is received at the time that the Earning Asset reaches maturity; or
  - c. other requirements are not met, other than concerning repayment of principal and/or interest, that may lead to event of default.

#### Part Ten

#### Credit and Provision of Funds in Small Amounts and Credit and Provision of Funds in Specified Regions

#### Article 35

Classification of quality for:

- a. Credit and other provision of funds up to Rp 500,000,000 (five hundred million rupiahs);
  - b. Small-scale business credit under the applicable Bank Indonesia provisions; and
  - c. Credit and other provision of funds in business locations in specified regions, to a limit of Rp 1,000,000,000 (one billion rupiahs),
- shall be based on prompt repayment of principal and/or interest.



CHAPTER IV  
NON-EARNING ASSETS

Part One  
General Provisions

Article 36

The scope of the requirement for quality assessment of Non-earning Assets covers Foreclosed Collateral, Abandoned Property, Interoffice Accounts, and Suspense Accounts.

Part Two  
Foreclosed Collateral

Article 37

- (1) Banks are required to pursue the resolution of any holdings of Foreclosed Collateral.
- (2) Banks are required to document the actions taken for resolution of Foreclosed Collateral as referred to in paragraph (1).

Article 38

- (1) Banks are required to conduct reappraisal of Foreclosed Collateral in order to determine net realizable value.
- (2) Reappraisal of Foreclosed Collateral as referred to in paragraph (1) shall be conducted at the time of foreclosure of the collateral.
- (3) Interest arrears settled by means of Foreclosed Collateral may not be recognized as income until the income is realized.

- (4) Net realizable value as referred to in paragraph (1) shall be determined by an independent appraiser in the case of Foreclosed Collateral with value of Rp 5,000,000,000 (five billion rupiahs) or more.
- (5) Net realizable value as referred to in paragraph (1) may be determined by an internal appraiser of the Bank if the value of the Foreclosed Collateral is less than Rp 5,000,000,000 (five billion rupiahs).
- (6) The Bank shall apply the lowest value if multiple values are obtained from independent appraisers as referred to in paragraph (4) or internal appraisers as referred to in paragraph (5).
- (7) Independent appraiser as referred to in paragraph (4) is an appraisal company:
  - a. that is not a Related Party to the Bank;
  - b. is not in the same Debtor Group as the debtor of the Bank;
  - c. conducts appraisal activities under a professional code of ethics and regulations stipulated by the competent institution;
  - d. uses appraisal methods based on professional appraisal standards issued by the competent institution;
  - e. is licensed by the competent institution to operate as an appraisal company; and
  - f. is registered as a member of an association recognized by the competent institution.

### Article 39

- (1) Quality of Foreclosed Collateral for which resolution is pursued as referred to in Article 37 shall be classified as follows:
  - a. Current if the Foreclosed Collateral has been held for up to 1 (one) year;

b. Sub-standard ...

- b. Sub-standard if the Foreclosed Collateral has been held for more than 1 (one) year and up to 3 (three) years;
  - c. Doubtful if the Foreclosed Collateral has been held for more than 3 (three) years and up to 5 (five) years;
  - d. Loss if the Foreclosed Collateral has been held for more than 5 (five) years.
- (2) Quality of Foreclosed Collateral for which resolution is not pursued as referred to in Article 37 shall be classified to one level below that of the provisions referred to in paragraph (1).

### Part Three

#### Abandoned Property

##### Article 40

- (1) Banks are required to identify and designate any holdings of Abandoned Property.
- (2) Designation of Abandoned Property as referred to in paragraph (1) shall be approved by the Board of Directors and duly documented.

##### Article 41

- (1) Banks are required to pursue resolution of holdings of Abandoned Property.
- (2) Banks are required to document the actions taken to pursue resolution of Abandoned Property as referred to in paragraph (1).

#### Article 42

- (1) Quality of Abandoned Property for which resolution is pursued as referred to in Article 41 shall be classified as follows:
  - e. Current if the Abandoned Property has been held for up to 1 (one) year;
  - f. Sub-standard if the Abandoned Property has been held for more than 1 (one) year and up to 3 (three) years;
  - g. Doubtful if the Abandoned Property has been held for more than 3 (three) years and up to 5 (five) years;
  - h. Loss if the Abandoned Property has been held for more than 5 (five) years.
- (2) Quality of Abandoned Property for which resolution is not pursued as referred to in Article 41 shall be classified one level below that of the provisions referred to in paragraph (1).

#### Part Four

#### Interoffice Accounts and Suspense Accounts

#### Article 43

- (1) Banks are required to pursue the resolution of Interoffice Accounts and Suspense Accounts.
- (2) Quality of Interoffice Accounts and Suspense Accounts shall be classified as follows:
  - a. Current for Interoffice Accounts and Suspense Accounts recorded in the books of the Bank for up to 180 (one hundred and eighty) days;
  - b. Loss for Interoffice Accounts and Suspense Accounts recorded in the books of the Bank for more than 180 (one hundred and eighty) days.

CHAPTER V  
PROVISION FOR ASSET LOSSES

Part One  
General Provisions

Article 44

- (1) Banks are required to set aside Provision for Asset Losses in respect of Earning Assets and Non-Earning Assets.
- (2) Provision for Asset Losses as referred to in paragraph (1) shall comprise:
  - a. general reserves and special reserves for Earning Assets; and
  - b. special reserves for Non-Earning Assets.
- (3) Provision for Asset Losses as referred to in paragraph (1) shall be set aside at least in accordance with this Bank Indonesia Regulation.

Article 45

- (1) General reserves as referred to in Article 44 paragraph (2) letter a shall be set aside at no less than 1% (one percent) of Earning Assets classified as Current.
- (2) The requirement to set aside general reserves as referred to in paragraph (1) is waived for Earning Assets comprising SBIs and ~~GS~~ SUN and any portion of Earning Assets backed by cash collateral as referred to in Article 33.
- (3) Special reserves as referred to in Article 44 paragraph (2) shall be set aside at least to:
  - a. 5% (five percent) of Assets classified Special Mention, after deduction for collateral value;
  - b. 15% (fifteen percent) of Assets classified Sub-standard, after

c. 50% ...

- deduction for collateral value;
  - c. 50% (fifty percent) of Assets classified Doubtful, after deduction for collateral value;
  - d. 100% (one hundred percent) of Assets classified Loss, after deduction for collateral value.
- (4) Collateral value may only be deducted from Provision for Asset Losses as referred to in paragraph (3) for Earning Assets.

## Part Two

### Requirements for Collateral and Deduction of Collateral from Provision for Asset Losses

#### Article 46

Collateral eligible for deduction from Provision for Asset Losses is stipulated as follows:

- a. Securities and shares actively traded on a stock exchange in Indonesia or rated investment grade and bound under pledge;
- b. land, residential property, and buildings bound under deed of mortgage;
- c. aircraft or ships with dimensions exceeding 20 (twenty) cubic meters, bound under hypothec; and/or
- d. motor vehicles and inventory bound under fiduciary transfer.

#### Article 47

- (1) Collateral as referred to in Article 46 shall be:
- a. accompanied by valid legal documents;
  - b. bound in accordance with the applicable laws and regulations in such manner as to confer preferential rights on the Bank; and

- c. protected by a banker's clause, namely a clause conferring the Bank with the right to receive insurance monies in the event of a claim payout.
- (2) An insurance company providing insurance coverage of collateral as referred to in paragraph (1) letter c shall meet the following requirements:
- a. the insurance company shall comply with the capital provisions stipulated by the competent institution; and
  - b. the insurance company is not a Related Party with the bank or part of the same Debtor Group as the Bank debtor, unless reinsured by an insurance company that is not a Related Party with the bank or part of the same Debtor Group as the Bank debtor.

#### Article 48

- (1) Value of collateral eligible for deduction against Provision for Asset Losses shall be determined as follows:
- a. for Securities and shares actively traded on a stock exchange in Indonesia or rated investment grade, no more than 50% (fifty percent) of the value recorded on the stock exchange at end of month;
  - b. for land, buildings, residential property, aircraft, marine vessels (pasal 46 ships) , motor vehicles, and inventory, no more than:
    - 1) 70% (seventy percent) of appraisal value, if appraisal has been conducted during the last 12 (twelve) months;
    - 2) 50% (fifty percent) of appraisal value, if appraisal was conducted more than 12 (twelve) months but no more than 18 (eighteen) months previously;

3) 30% ...

- 3) 30% (fifty percent) of appraisal value, if appraisal was conducted more than 18 (eighteen) months but no more than 24 (twenty-four) months previously;
  - 4) 0% (zero percent) of appraisal value, if appraisal was conducted more than 24 (twenty-four) months previously.
- (2) Appraisal as referred to in paragraph (1) shall be conducted by an independent appraisal company as referred to in Article 38 paragraph (7) or internal appraiser of the Bank, in accordance with the provisions referred to in Article 49.
  - (3) Banks are required to apply the lowest appraisal value if multiple values are provided by independent appraisers or internal appraisers.

#### Article 49

- (1) If collateral is to be applied as deduction from Provision for Asset Losses, appraisal of the collateral shall be conducted by an independent appraiser as referred to in Article 38 paragraph (7) for Earning Assets of more than Rp 5,000,000,000 (five billion rupiahs) to a debtor or Debtor Group.
- (2) Appraisal of collateral may be conducted by an internal appraiser of the Bank in the case of Earning Assets extended up to a total of Rp 5,000,000,000 (five billion rupiahs) to a debtor or Debtor Group.

#### Article 50

- (1) Bank Indonesia reserves the right to recalculate the value of collateral set off against Provision for Asset Losses if the Bank fails to comply with the provisions referred to in Article 46, Article 47, Article 48, and/or Article 49.

(2) The Bank ...



- (2) The Bank shall adjust the calculation of Provision for Asset Losses in accordance with the calculation determined by Bank Indonesia as referred to in paragraph (1) in reports submitted to Bank Indonesia and/or published reports governed by the applicable legal provisions no later than the following reporting period after notification from Bank Indonesia.

## CHAPTER VI DEBT RESTRUCTURING

### Part One General Provisions

#### Article 51

Banks may only conduct Debt Restructuring for debtors that meet the following criteria:

- a. a debtor is experiencing difficulties in repayment of Credit principal and/or interest; and
- b. the debtor has good business prospects and will be capable of meeting obligations after the Credit is restructured.

#### Article 52

Banks are prohibited from conducting Debt Restructuring solely in order to circumvent:

- a. downgrading in classification of Credit quality;
- b. increased Provision for Asset Losses; or
- c. discontinuing of recognition of interest income on an accrual basis.

Part Two

Accounting Treatment for Debt Restructuring

Article 53

Banks are required to apply accounting treatment for Debt Restructuring, including but not limited to recognition of losses incurred in Debt Restructuring, in accordance with the applicable Financial Accounting Standards and Principles of Bank Accounting in Indonesia.

Part Three

Policy and Procedures for Debt Restructuring

Article 54

- (1) Banks are required to have a written policy and procedures for Debt Restructuring.
- (2) The Debt Restructuring policy referred to in paragraph (1) shall be approved by the Board of Commissioners.
- (3) Debt Restructuring procedures as referred to in paragraph (1) shall be approved by no less than the Board of Directors.
- (4) The Board of Commissioners shall actively supervise implementation of the Debt Restructuring policy referred to in paragraph (1).
- (5) The policy and procedures referred to in paragraph (1) shall constitute an integral part of the risk management policy of the Bank as stipulated in the applicable Bank Indonesia provisions.

Article 55

- (1) To maintain objectivity, Debt Restructuring shall be conducted by an officer or employee not involved in the extension of the restructured Credit.

(2) Any ...

- (2) Any decision in Debt Restructuring must be made by an officer superior to the officer making the decision to extend the Credit.
- (3) If the decision to extend the Credit was made by a party holding the highest level of authority pursuant to the articles of association of the Bank, decisions for Debt Restructuring shall be made by an officer at the same level as the officer making the decision to extend the Credit.
- (4) Establishment of a special unit to conduct Debt Restructuring shall be adjusted to the needs of each Bank while maintaining compliance with the applicable Bank Indonesia provisions.

#### Article 56

- (1) Credit to be restructured shall be analyzed on the basis of debtor business prospects and repayment capability according to cash flow projection.
- (2) Credit to Related Parties that is to be restructured shall be analyzed by a licensed and reputable independent financial consultant.
- (3) Analysis by the Bank and independent financial consultant in regard to restructured Credit and each stage in implementation of Debt Restructuring shall be clearly documented in full.
- (4) The provisions referred to in paragraph (1), paragraph (2), and paragraph (3) shall also apply in the case of any repeated restructuring of Credit.

#### Part Four

#### Classification of Quality for Restructured Credit

#### Article 57

- (1) Credit quality after restructuring shall be classified as follows:

- a. no higher than Sub-standard for Credit classified prior to restructuring as Doubtful or Loss;
  - b. quality shall be unchanged for Credit classified prior to restructuring as Current, Special Mention, or Sub-standard.
- (2) Credit quality as referred to in paragraph (1) may be:
- a. classified Current, subject to no arrears in principal and interest over 3 (three) consecutive payment periods, in accordance with the Debt Restructuring agreement; or
  - b. reinstated according to Credit quality prior to Debt Restructuring or the actual quality if lower according to the criteria referred to in Article 10 if the debtor fails to meet the criteria and/or conditions in the Debt Restructuring Agreement and/or the operation of the Debt Restructuring is not supported by adequate analysis and documentation as referred to in Article 56.
- (3) If the period for payment of principal installments and/or interest is less than 1 (one) month, upgrading of quality to Current as referred to in paragraph (2) letter a may take place no earlier than 3 (three) months after the completion of Debt Restructuring.
- (4) The provisions referred to in paragraph (1), paragraph (2), and paragraph (3) shall also apply to any repeated restructuring of the Credit.
- (5) Quality of additional Credit comprising part of the Debt Restructuring package shall be classified as Current if extended under strict procedures and backed by sufficient collateral.

#### Article 58

Quality of Credit restructured by provision of a grace period shall be classified as follows:

a. during ...

- a. during the grace period, quality shall be classified according to Credit quality prior to restructuring; and
- b. after expiration of the grace period, Credit quality shall be classified as referred to in Article 57.

#### Article 59

- (1) Quality of restructured Credit and quality of any additional Credit comprising part of a Debt Restructuring package shall be classified in accordance with the provisions referred to in Article 10 no later than 1 (one) year after classification of quality as referred to in Article 57 paragraph (1) and Article 58 letter b.
- (2) Quality of Credit not meeting the criteria and/or conditions in a Debt Restructuring Agreement as referred to in Article 57 paragraph (2) and letter b shall be classified in accordance with the provisions referred to in Article 10.

#### Article 60

Uniform classification of Asset quality as referred to Article 5 and Article 6 shall also apply to restructured Credit.

Part Five

Provision for Asset Losses and Recognition of Income  
from Restructured Credit

Article 61

Interest income and other revenues from restructured Credit may only be recognized if received in cash before upgrading of Credit quality to Current.

Article 62

Banks are required to set aside Provision for Asset Losses in respect of restructured Credit in accordance with the provisions referred to in Article 45.

Article 63

- (1) Banks are required to charge off any loss incurred from Debt Restructuring after set-off against excess Provision for Asset Losses by reason of improved quality of Credit after restructuring.
- (2) Excess Provision for Asset Losses by reason of improved quality of Credit after restructuring as referred to in paragraph (1), after set off against losses incurred from Debt Restructuring, may only be recognized as income if there is receipt of principal installments on the restructured Credit.
- (3) Recognition of income as referred to in paragraph (2) shall be pro rata according to the receipt of principal installments on the restructured Credit.

Part Six

Debt Restructuring by Temporary Equity Participation

Article 64

- (1) Banks may conduct Debt Restructuring in the form of Temporary Equity Participation.
- (2) Temporary Equity Participation as referred to in paragraph (1) shall be permitted only for Credit with quality classified as Sub-standard, Doubtful, or Loss.

Article 65

- (1) Temporary Equity Participation shall be withdrawn:
  - a. upon expiration of a period of no more than 5 (five) years; or
  - b. if the investee ~~debtor company~~ has earned a cumulative profit.
- (2) Temporary Equity Participation shall be written off the balance sheet of the Bank upon expiration of a period of 5 (five) years.

Part Seven

Debt Restructuring Report

Article 66

Banks shall report all actions taken in Debt Restructuring to Bank Indonesia no later than 10 (ten) working days after the end of the reporting month, using the Debt Restructuring reporting form.

#### Article 67

Reports as referred to in Article 66 shall be submitted to Bank Indonesia at the following addresses:

- a. relevant Directorate of Bank Supervision, Jl. MH. Thamrin No. 2, Jakarta 10110, for a Bank having its head office in the working area of the Bank Indonesia Head Office;
- b. local Bank Indonesia Regional Office, for a Bank having its head office outside the working area of the Bank Indonesia Head Office.

#### Part Eight

##### Miscellaneous Provisions

#### Article 68

Bank Indonesia reserves the right to make corrections to classification of Credit quality, Provision for Asset Losses, and accrual recognition of interest income, if:

- a. in the opinion of Bank Indonesia, Debt Restructuring is discovered to have been conducted for purposes as referred to in Article 52;
- b. Debt Restructuring is not supported by complete documents and adequate analysis of the repayment capability and business prospects of the debtor;
- c. the debtor is in breach of the Debt Restructuring agreement or contract;
- d. Debt Restructuring has been conducted repeatedly for the sole purpose of upgrading Credit quality without taking account of the business prospects of the debtor;
- e. Debt Restructuring is not conducted in compliance with the provisions stipulated in this Bank Indonesia Regulation.



CHAPTER VII  
WRITE OFF AND CLAIM WRITE OFF  
Article 69

- (1) Banks are required to have written policy and procedures for write off and claim write off.
- (2) The policy referred to in paragraph (1) shall be approved by the Board of Commissioners.
- (3) The procedures referred to in paragraph (1) shall be approved at least by the Board of Directors.
- (4) The Board of Commissioners shall actively supervise implementation of the policy referred to in paragraph (1).
- (5) The policy and procedures referred to in paragraph (1) shall constitute an integral part of the risk management policy of the Bank as stipulated in the applicable Bank Indonesia provisions.

Article 70

- (1) Write off and claim write off shall be permitted only for provision of funds classified as Loss.
- (2) Partial write off of provision of funds shall not be permitted.
- (3) Claim write off shall be permitted for provision of funds in all or in part.
- (4) Partial claim write off of provision of funds as referred to in paragraph (3) shall be permitted only for Debt Restructuring purposes or for recovery of Credit.

#### Article 71

- (1) Write off and/or claim write off as referred to in Article 70 shall only be permitted after the Bank has pursued various measures to recover the previously extended Earning Assets.
- (2) The Bank shall document the actions taken as referred to in paragraph (1) as a basis for consideration of write off and/or claim write off.
- (3) Banks shall administer data and information on Earning Assets written off and/or written off as claims.

### CHAPTER VIII

#### MISCELLANEOUS PROVISIONS

#### Article 72

- (1) Any Bank with a CAR expected to deteriorate significantly and/or deteriorate below the level stipulated in the applicable provisions as a result of the promulgation of this Bank Indonesia Regulation shall prepare an action plan to resolve the issues and problems faced.
- (2) In addition to preparation of an action plan as referred to in paragraph (1), an action plan shall be prepared by a Bank at the instruction of Bank Indonesia.
- (3) Action plan as referred to in paragraph (1) shall be submitted to Bank Indonesia no later than 6 (six) months after the enactment of this Bank Indonesia Regulation at the following addresses:
  - a. relevant Directorate of Bank Supervision, Jl. MH. Thamrin No. 2, Jakarta 10110, for a Bank having its head office in the working area of the Bank Indonesia Head Office;

- b. local Bank Indonesia Regional Office, for a Bank having its head office outside the working area of the Bank Indonesia Head Office.

## CHAPTER IX

### SANCTIONS

#### Article 73

- (1) Any Bank failing to comply with the provisions stipulated in Article 2, Article 4, Article 5, Article 6, Article 7, Article 9, Article 13, Article 17, Article 18, Article 22, Article 33 paragraph (3), Article 34, Article 37, Article 38, Article 40, Article 41, Article 43, Article 44, Article 47, Article 49, Article 50 paragraph (2), Article 51, Article 52, Article 53, Article 54, Article 55, Article 56, Article 61, Article 62, Article 63, Article 64 paragraph (2), Article 65, Article 66, Article 69, Article 70, Article 71, and Article 72 shall be liable to administrative sanctions including but not limited to:
  - a. written warning;
  - b. freezing of specified business activities;
  - c. inclusion of the management and/or shareholders of the Bank on the list of persons prohibited from becoming shareholders and managers in Banks,as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.
- (2) In addition to the sanctions referred to in paragraph (1), any Bank failing to comply with Article 17 and Article 18 shall be required to set aside Provision for Asset Losses at 100% (one hundred percent) of the Assets concerned.

CHAPTER X  
CONCLUDING PROVISIONS

Article 74

- (1) Classification of quality for Foreclosed Collateral as referred to in Article 39, classification of quality for Abandoned Property as referred to in Article 42, and classification of quality for Interoffice Accounts and Suspense Accounts as referred to in Article 43 shall come into effect 12 (twelve) months after the enactment of this Bank Indonesia Regulation.
- (2) Classification of quality for Off Balance Sheet Items comprising undisbursed loans shall come into effect 12 (twelve) months after the enactment of this Bank Indonesia Regulation.

Article 75

Implementation provisions concerning Asset Quality Rating for Commercial Banks shall be stipulated further in a Circular Letter of Bank Indonesia.

Article 76

- (1) With the enactment of this Bank Indonesia Regulation:
  - a. Decree of the Management of Bank Indonesia Number 31/147/KEP/DIR dated November 12, 1998, concerning Earning Asset Quality;
  - b. Decree of the Management of Bank Indonesia Number 31/148/KEP/DIR dated November 12, 1998, concerning Formation of Allowance for Earning Asset Losses;
  - c. Bank Indonesia Regulation Number 4/6/PBI/2002 dated September 6, 2002, concerning Amendment to Decree of the Management of Bank

Indonesia Number 31/147/KEP/DIR dated November 12, 1998, concerning Earning Asset Quality;

- d. Decree of the Management of Bank Indonesia Number 31/150/KEP/DIR dated November 12, 1998, concerning Debt Restructuring, specifically in reference to Commercial Banks conducting conventional business;
- e. Bank Indonesia Regulation Number 2/15/PBI/2000 dated June 12, 2000, concerning Amendment to Decree of the Management of Bank Indonesia Number 31/150/KEP/DIR dated November 12, 1998, concerning Debt Restructuring, specifically in reference to Commercial Banks conducting conventional business; and
- f. Bank Indonesia Regulation Number 4/11/PBI/2002 dated December 20, 2002 concerning Special Treatment for Commercial Bank Credit Following the Bali Tragedy,

are revoked and declared no longer valid.

- (2) All Bank Indonesia provisions referring to the provisions concerning Earning Asset Quality, Allowance for Earning Asset Losses, and Debt Restructuring shall hereafter refer to this Bank Indonesia Regulation unless governed separately.

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Article 77

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in : Jakarta

Dated : January 20, 2005

THE GOVERNOR OF BANK INDONESIA

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 12 OF  
2005

DPNP

ELUCIDATION  
TO  
BANK INDONESIA REGULATION  
NUMBER: 7/2/PBI/2005  
CONCERNING  
ASSET QUALITY RATING  
FOR COMMERCIAL BANKS

GENERAL REVIEW

The condition and characteristics of assets in the national banking system, both at the present and in the future, continue to be influenced by credit risk. If not managed effectively, this credit risk will potentially affect the business survival of a Bank. Causes of ineffective credit risk management include, but are not limited to, weaknesses in the application of policy and procedures for provision of funds, including classification of quality, weaknesses in management of the Bank asset portfolio, and weaknesses in anticipating changes in external factors affecting the quality of provision of funds.

To ensure business sustainability, it is essential for Banks to minimize potential loss from provision of funds. This is accomplished among others by maintaining credit risk exposure at adequate levels. In this regard, Bank management is required to apply effective credit risk management for all types of provision of funds and to uphold the prudential principles relevant to these transactions.

In these upgraded provisions, the scope of quality classification of assets is expanded to include both earning asset and non-earning assets. The expanded scope is intended to enable Banks to rearrange their asset portfolios as the earliest opportunity, particularly on the non-earning assets side, in order to restore the

function ...

function of Banks as an intermediary institution channeling funds to eligible business sectors. Furthermore, to classify quality of provision of funds in a way that better reflects credit risk exposure levels, it is necessary to restructure the criteria, requirements, and procedures for quality rating for each type of provision of funds.

As a general rule, the classification of earning asset quality uses the uniform classification approach for earning assets used to finance any one debtor or one project. In classifying credit quality, Banks are required to take account of the business prospects, performance, and repayment capability of the debtor. In view of the importance of conservation of the environment, Banks also need to take account of the environmental conservation measures pursued by the debtor in their assessment of business prospects. In keeping with the increasing diversity of Securities, these provisions also govern the quality classification of Securities backed by or linked to underlying reference assets. Furthermore, with the soon-coming discontinuation of the government blanket guarantee scheme for interbank placements, it is necessary for Banks to assess the quality of interbank placements, whether in Indonesia or overseas.

To expand bank lending in certain areas that in the opinion of Bank Indonesia require special treatment to promote local economic development, easier requirements apply to quality rating of provision of funds, which shall be based solely on promptness of repayment. The same treatment is also extended to small-scale business credit and provision of funds up to Rp 500,000,000 (five hundred million rupiahs).

To anticipate potential loss from provision of funds, Banks are required to set aside provision for asset losses in the form of general reserves and special reserves for earning assets, after deduction for collateral meeting the requirements for set-off against reserves. Furthermore, in keeping with mandate of the Banking Act that requires immediate resolution by Banks of any non-

productive ...



productive asset holdings, it is necessary for Banks to take measures that include anticipation of potential loss by setting aside special reserves.

As one measure to minimize potential loss from problem loans, Banks may also conduct debt restructuring in the case of debtors that will retain business prospects and repayment capability after restructuring. In the case of provision of funds exposure with no more business prospects and repayment capability or categorized as Loss, and where the Bank has pursued various actions for recovery of the provision of funds, the Bank may proceed with write off or claim write off.

In view of the need for integrated provisions on the matters described above both in regard to operations and prudential principles, it is necessary for the regulation of earning asset quality, provision for earning asset losses, and debt restructuring to be improved and combined together in this Bank Indonesia Regulation.

## ARTICLE BY ARTICLE

### Article 1

Self-explanatory.

### Article 2

#### Paragraph (1)

Self-explanatory.

#### Paragraph (2)

The necessary measures to ensure good asset quality at all times include but are not limited to the effective application of credit risk

management, including the formulation of policy and guidelines as stipulated in the applicable Bank Indonesia provisions.

### Article 3

Self-explanatory.

### Article 4

#### Paragraph (1)

Self-explanatory.

#### Paragraph (2)

Self-explanatory.

#### Paragraph (3)

The understanding of notification includes any notification from Bank Indonesia to the Bank in an exit meeting conducted within the framework of Bank examination.

### Article 5

#### Paragraph (1)

“Debtor” in this paragraph is a natural or legal person that constitutes an autonomous entity and generates cash flow as a source of repayment of Earning Assets.

#### Paragraph (2)

Included as “earning assets extended by more than 1 (one) Bank” is any syndicated provision of funds.

Paragraph (3) ...

Paragraph (3)

Self-explanatory.

Article 6

Paragraph (1)

“Same project” includes but is not limited to cases in which:

- a. there is significant interdependence within the business chain in any production process involving a number of debtors. Interdependence is deemed significant if, among others, the production process within an entity is dependent on the production process of another entity, e.g., dependence on raw materials in the production process.
- b. continuity of cash flow in one entity would be significantly disrupted if cash flow in another entity is disrupted.

Paragraph (2)

Included in “Earning Assets extended by more than 1 (one) Bank” is any syndicated provision of funds.

Paragraph (3)

Self-explanatory.

Article 7

Self-explanatory.

Article 8

“Debtor” in this article is a natural or legal person that constitutes an autonomous entity and generates cash flow as a source of repayment of Earning Assets.

## Article 9

### Paragraph (1)

The requirement for audit of the financial statement is intended to ensure the accuracy and credibility of debtor financial statements, given that debtor financial condition is one of the criteria used in classifying Earning Asset quality.

### Paragraph (2)

Self-explanatory.

### Paragraph (3)

“Applicable laws and regulations” are defined as including but not limited to Government Regulation Number 24 of 1998 concerning Corporate Annual Financial Information as amended by Government Regulation Number 64 of 1999.

### Paragraph (4)

Self-explanatory.

## Article 10

Self-explanatory.

## Article 11

### Paragraph (1)

#### Letter a

Self-explanatory.

#### Letter b

Self-explanatory.

Letter c ...

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

“Debtor” in this letter is defined as any debtor required to take environmental management actions under the applicable laws and regulations.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 12

Self-explanatory.

Article 13

Self-explanatory.

Article 14

Paragraph (1)

Securities in the trading portfolio and available for sale shall be recognized at market value as referred to in the applicable Bank Indonesia provisions concerning the Minimum Capital Requirement for Commercial Banks taking account of Market Risk.

Letter a

The criteria for actively traded on a stock exchange is the existence of significant arms length transactions on a stock exchange in Indonesia during the last 10 (ten) working days.

Letter b

Transparent information on market value must be available in the customary media publications for stock exchange transactions.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Paragraph (2)

Securities recognized at cost are Securities held to maturity.

Article 15

Self-explanatory.

Article 16

Self-explanatory.

Article 17

Ownership of Securities linked to or backed by underlying reference assets in the form of shares shall be permitted only for Equity Participation or

Temporary Equity Participation subject to approval from Bank Indonesia as referred to in the applicable Bank Indonesia provisions.

#### Article 18

“Securities linked to or backed by underlying reference assets” are defined as including but not limited to mutual fund certificates, credit linked notes, and asset-backed securities.

##### Letter a

The existence of an asset can be ascertained, among others, if the asset is held at a custodian bank, the Indonesian Central Depository (KSEI), or Bank Indonesia.

##### Letter b

Self-explanatory.

##### Letter c

Self-explanatory.

##### Letter d

Self-explanatory.

#### Article 19

##### Paragraph (1)

##### Letter a

Repayment of Securities obligations shall be deemed pass through if principal and interest on the Securities are derived solely from repayment of principal and interest on the underlying assets.

Letter b ...

Letter b

Self-explanatory.

Paragraph (2)

Quality of underlying reference assets shall be classified on the basis of the type and quality of the assets involved. For example, assets comprising Credit to debtors shall be classified on the basis of the provisions for quality of Credit to debtors, assets comprising Securities shall be classified on the basis of Securities quality, and assets comprising interbank time deposits shall be classified on the basis of Placement quality.

If the underlying reference assets have varying quality, quality of the Securities shall be classified according to the quality of each of the underlying assets calculated on a pro-rata basis.

Paragraph (3)

Letter a

Quality of mutual fund certificates shall be classified on the basis of the provisions governing Securities quality for mutual fund certificates as a single product and not for each type of underlying reference assets represented by the mutual fund certificates.

Letter b

Quality of mutual fund certificates shall be classified on the basis of the quality of each type of the underlying assets and quality of the issuer of the mutual fund certificates in accordance with the provisions concerning Credit quality, emphasizing among others the following:

- a. performance, liquidity, and reputation of the issuer; and
- b. portfolio diversification of the issuer.



## Article 20

### Paragraph (1)

#### Letter a

Self-explanatory.

#### Letter b

Securities by nature not actively traded on a stock exchange and also unrated include but are not limited to medium term notes.

### Paragraph (2)

Self-explanatory.

## Article 21

Included as negotiation of bills of exchange are export bills of exchange and Domestic Letters of Credit (SKBDN).

## Article 22

Self-explanatory.

## Article 23

Self-explanatory.

## Article 24

Capital Adequacy Ratio in compliance with the applicable legal provisions is the Capital Adequacy Ratio stipulated by the competent authority for the bank receiving the Placement.

The Capital Adequacy Ratio shall be based on the latest published financial statement according to the period stipulated by the competent authority. If the latest published financial statement and/or data on the Capital Adequacy Ratio in the latest published financial statement is not available, the Bank shall be deemed to have a Capital Adequacy Ratio below the level prescribed in the applicable legal provisions.

#### Article 25

Self-explanatory.

#### Article 26

##### Paragraph (1)

Securities purchased under reverse repurchase agreement are purchases of Securities from another party accompanied by an agreement for resale to the other party at the end of a period at a price or return agreed in advance.

##### Paragraph (2)

Self-explanatory.

##### Paragraph (3)

Self-explanatory.

#### Article 27

Under the applicable legal provisions, permitted derivative transactions are those linked to interest rates or foreign currencies. Derivative transactions linked to shares may only be conducted with approval from Bank Indonesia

or for purposes of Equity Participation or Temporary Equity Participation under the applicable Bank Indonesia provisions.

#### Article 28

Equity Participation shall be assessed according to the cost method if the Equity Participation is less than 20% (twenty percent) of the capital of the Company in which the Bank has placed Equity Participation (investee) and/or ~~does not~~ meet the criteria for element of control. Criteria for element of control shall refer to the applicable Bank Indonesia provisions concerning Transparency of Bank Financial Condition.

#### Article 29

Equity Participation shall be assessed according to the equity method if the Equity Participation is 20% (twenty percent) or more of the capital of the investee and does not meet the criteria for element of control. Criteria for element of control shall refer to the applicable Bank Indonesia provisions concerning Transparency of Bank Financial Condition.

#### Article 30

##### Paragraph (1)

The term of Temporary Equity Participation shall be calculated from the time that the Bank entered into the Temporary Equity Participation.

##### Paragraph (2)

Self-explanatory.

Article 31

Self-explanatory.

Article 32

Self-explanatory.

Article 33

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

If cash collateral is in the form of gold, collateral value shall be determined on the basis of market value.

Letter b

If cash collateral is in the form of GS, collateral value shall be determined on the basis of GS market value or if there is no market value, on the basis of fair value.

Letter c

“Government of Indonesia” in this letter is defined as the Central Government.

Letter d

Self-explanatory.

Paragraph (3)

Blocking and binding of SBIs and GS for the time being shall be administered by Bank Indonesia.

Paragraph (4) ...

Paragraph (4)

“Unconditional” is defined as when:

- a. the benefit of the guarantee to the Bank providing funds will not be substantially diminished even in the case of losses caused by factors outside the control of the Bank; and
- b. no procedural requirements are stipulated, such as:
  - 1. required period for notification of default;
  - 2. requirement for the Bank providing funds to prove good faith; and/or
  - 3. requirement for encashment of guarantee by prior set-off against the liabilities of the Bank providing funds to the guarantor.

Paragraph (5)

Self-explanatory.

Article 34

Self-explanatory.

Article 35

Letter a

The limit on provision of Credit facilities and other provision of funds will be calculated for all facilities received by any debtor, whether individual debtor or Debtor Group, from any one Bank.

“Other provision of funds” is defined as issuance of guarantee or opening of letter of credit.

Letter b

Self-explanatory.

Letter c ...

Letter c

~~The legal lending limit for a~~ Credit facility and other provision of funds shall be calculated in respect of all facilities received by each debtor, whether individual debtor or Debtor Group, from one Bank.

Credit and other provision of funds to debtors with business locations in specified regions is Credit or other provision of funds from the Bank for investment and/or working capital in specific regions that in the opinion of Bank Indonesia require special treatment to promote economic development in the local area.

“Other provision of funds” is defined as issuance of guarantee or opening of letter of credit.

Article 36

Self-explanatory.

Article 37

Paragraph (1)

This regulation is intended to ensure that Banks conduct business according to their functions in mobilizing funds from the public and channeling funds to the public.

Settlement measures may be pursued, among others, by actively marketing and selling Foreclosed Collateral.

Paragraph (2)

The scope of documentation includes but is not limited to evidence from data and information on actions taken for the marketing and sale of Foreclosed Collateral.

## Article 38

### Paragraph (1)

“Net realizable value” is defined as fair value of collateral subtracted by estimated costs of disposal. Maximum net realizable value is the value of Earning Assets settled by means of Foreclosed Collateral.

### Paragraph (2)

Self-explanatory.

### Paragraph (3)

Self-explanatory.

### Paragraph (4)

Self-explanatory.

### Paragraph (5)

Self-explanatory.

### Paragraph (6)

Self-explanatory.

### Paragraph (7)

Self-explanatory.

## Article 39

Self-explanatory.

## Article 40

### Paragraph (1)

Abandoned Property includes any property that is productive not within the framework of Bank business, such leased buildings or parts of buildings.

If a Bank ...

If a Bank is using only part of a building to conduct business, the part of the building not used for business shall be classified as Abandoned Property on a proportional basis.

Paragraph (2)

Self-explanatory.

Article 41

Paragraph (1)

This regulation is intended to ensure that Banks conduct business according to their functions in mobilizing funds from the public and channeling funds to the public.

Resolution may be pursued, among others, by actively marketing and selling the Abandoned Property.

Paragraph (2)

The scope of documentation includes but is not limited to evidence from data and information on efforts to market and sell Abandoned Property.

Article 42

Self-explanatory.

Article 43

Paragraph (1)

Resolution is necessary to ensure that all Bank transactions are recognized and recorded on the basis of the characteristics of those

transactions ...



transactions and to minimize the possibility of manipulated transactions that could incur losses for the Bank.

Paragraph (2)

Assessment of Interoffice Accounts is for Interoffice Accounts on the assets side without set-off against Interoffice Accounts on the liabilities ~~and equity~~ side, given the absence of certainty that the counterparties are the same parties or offices.

Article 44

Paragraph (1)

Formation of Provision for Asset Losses in regard to Non-Earning Assets is intended to encourage the Bank to pursue resolution and to anticipate potential loss.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 45

Self-explanatory.

Article 46

Letter a

The criteria for actively traded on a stock exchange is the existence of significant volume of arms length transactions on a stock exchange in Indonesia during the last 10 (ten) working days.

Investment grade shall be based on the rating issued by a rating agency within the past year. If a rating issued by a rating agency within the past year is not available, the Securities shall be deemed unrated.

Letter b

Binding of collateral under deed of mortgage and hypothec must be in accordance with the provisions and procedures set forth in the applicable laws and regulations, including but not limited to matters of registration, with the result that the Bank holds preferential rights with respect of the collateral.

Letter c

Binding of collateral under fiduciary transfer must be in accordance with the provisions and procedures set forth in the applicable laws and regulations, including but not limited to matters of registration, with the result that the Bank holds preferential rights with respect of the collateral.

Article 47

Paragraph (1)

Letter a

Self-explanatory.

Letter b

“Binding with preferential rights” is defined as binding under pledge, hypothec, deed of mortgage, and fiduciary transfer.

Letter c

The term of insurance coverage for collateral shall be at least equal to the tenor of the Earning Asset.

Paragraph (2) ...

Paragraph (2)

Self-explanatory.

Article 48

Appraisal is a written statement by an independent appraiser or internal appraiser of the Bank concerning assessment and opinion of the economic value of the collateral based on analysis of objective and relevant facts according to the generally prevailing method and principles established by a competent association or institution.

Article 49

Paragraph (1)

The Rp 5,000,000,000 (five billion rupiah) limit shall apply to all facilities extended to the debtor or Debtor Group in their entirety.

Paragraph (2)

Self-explanatory.

Article 50

Paragraph (1)

Self-explanatory.

Paragraph (2)

Included as notification is any notification from Bank Indonesia to the Bank in an exit meeting within the framework of Bank examination.

Article 51

Self-explanatory.

Article 52

Self-explanatory.

Article 53

Self-explanatory.

Article 54

Self-explanatory.

Article 55

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

“Applicable Bank Indonesia provisions” are defined as including but not limited to the provisions concerning the Requirement for Design and Implementation of Credit Policy by Commercial Banks.

Article 56

Self-explanatory.

Article 57

Self-explanatory.

Article 58

“Grace period” in this paragraph is defined as grace period for payment of principal and interest.

Article 59

Self-explanatory.

Article 60

Self-explanatory.

Article 61

Self-explanatory.

Article 62

Self-explanatory.

Article 63

Self-explanatory.

Article 64

Self-explanatory.

Article 65

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Cumulative profit is the company profit after deduction for loss carry-forward.

Paragraph (2)

Self-explanatory.

Article 66

Self-explanatory.

Article 67

Self-explanatory.

## Article 68

### Letter a

Self-explanatory.

### Letter b

Self-explanatory.

### Letter c

Self-explanatory.

### Letter d

Including in The understanding of not conducted in compliance with the provisions of this Bank Indonesia Regulation is not calculating the loss incurred by restructuring, among others, using the method for present value.

### Letter e

Self-explanatory.

## Article 69

### Paragraph (1)

Write off is the administrative action of the Bank in writing off Credit classified as Loss from the balance sheet in the amount of the liability of the debtor, without writing off the claim rights of the Bank against the debtor.

Claim write off is the action of the bank in writing off non-recoverable debtor liabilities.

The policy and procedure for write off and claim write off, among others, shall state the criteria, requirements, limits, powers and responsibilities, and procedure for write off and claim write off.

Paragraph (2) ...

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 70

Paragraph (1)

Self-explanatory.

Paragraph (2)

Write off must be performed for all provision of funds extended and committed within any single agreement.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Claim write off under Debt Restructuring and recovery of Credit is intended to provide transparency to the debtor. Recovery of Credit may proceed by means of foreclosure of collateral or repayment by the debtor.



## Article 71

### Paragraph (1)

Measures that may be pursued include but are not limited to collection from the debtor, Debt Restructuring, requesting payment from the party guaranteeing the Earning Assets, and recovery of Credit through foreclosure of collateral.

### Paragraph (2)

Self-explanatory.

### Paragraph (3)

Self-explanatory.

## Article 72

### Paragraph (1)

Significant fall of the CAR includes any drop of the CAR to a level approaching the CAR as stipulated in the applicable legal provisions.

### Paragraph (2)

Self-explanatory.

### Paragraph (3)

Self-explanatory.

## Article 73

Self-explanatory.

## Article 74

### Paragraph (1)

Based on the provisions of this paragraph, calculation of the period of ownership of Foreclosed Collateral and Abandoned Property and calculation of the period for recording of Interoffice Accounts and Suspense Accounts in the books of the Bank shall commence 12 (twelve) months after the enactment of this Bank Indonesia Regulation.

This provision shall also apply to Foreclosed Collateral, Abandoned Property, Interoffice Accounts, and Suspense Accounts held or recorded in the books of the Bank prior to the enactment of this Bank Indonesia Regulation.

For example, in the case of Foreclosed Collateral held by the Bank prior to the enactment of this Bank Indonesia Regulation and the Bank has pursued resolution of the Foreclosed Collateral, the Foreclosed Collateral shall be rated Loss in January 2011.

### Paragraph (2)

Self-explanatory.

## Article 75

Self-explanatory.

## Article 76

Self-explanatory.

Article 77

Self-explanatory.

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF  
INDONESIA NUMBER 4471

DPNP